

# **State of Alaska FY2008 Governor's Operating Budget**

**Dept of Commerce,Community,& Economic Development  
Insurance Operations  
RDU/Component Budget Summary**

**RDU/Component: Insurance Operations***(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

To assure competitive, viable, ethical and lawful insurance is available to Alaskans.

**Core Services**

- Licensing
- Compliance
- Filing Approval
- Public Information
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End Results	Strategies to Achieve Results
<b>A: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent</b>  <u>Target #1:</u> No domestic insurance company becomes insolvent <u>Measure #1:</u> Number of insolvent insurers  <u>Target #2:</u> 75% of investigations approved by the Director are completed within one year. <u>Measure #2:</u> Percentage completed within one year.	<b>A1: Timely financial examinations of domestic insurers</b>  <u>Target #1:</u> 100% of financial examinations of domestic insurance companies are done every three years <u>Measure #1:</u> Percentage completed every three years  <b>A2: Efficient licensing of both insurers and persons transacting insurance business</b>  <u>Target #1:</u> Producer applications processed within 10 days <u>Measure #1:</u> Average number of days for processing  <u>Target #2:</u> 80% of insurance company applications issued within 60 days <u>Measure #2:</u> Percentage of applications issued within 60 days  <u>Target #3:</u> Surplus lines applications are approved or denied within 90 days of receipt of a complete application. <u>Measure #3:</u> Percentage completed within 90 days  <b>A3: Thorough review of alleged violations of Alaska statutes</b>  <u>Target #1:</u> 100% of alleged violations of Alaska statutes undergo an initial case review, and receive a recommendation whether or not to present to the Director for approval to investigate. <u>Measure #1:</u> Percentage of case assessments and investigations performed  <b>A4: Market conduct examinations are used to assess</b>

	<p><b>market practices</b></p> <p><u>Target #1:</u> Perform market conduct examinations and market analysis to resolve compliance and market access issues.</p> <p><u>Measure #1:</u> Number of compliance issues that are resolved through market conduct examinations and market analysis.</p> <p><b>A5: Enhancement of capacity to receive electronic filings</b></p> <p><u>Target #1:</u> Reduce time needed to process electronic filings</p> <p><u>Measure #1:</u> Percentage reduction in time needed to process electronic filings</p> <p><b>A6: Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations</b></p> <p><u>Target #1:</u> Develop state specific filing checklists for self-certification of all product lines</p> <p><u>Measure #1:</u> Percentage of companies making filings accompanied by self-certification forms</p>
End Results	Strategies to Achieve Results
<p><b>B: Competitive, up-to-date insurance products are available to Alaskan consumers</b></p> <p><u>Target #1:</u> No more than 65% of the Property and Casualty market is shared by the top 5 insurers</p> <p><u>Measure #1:</u> Percentage of market share - top 5 Property and Casualty insurers</p> <p><u>Target #2:</u> 80% of rate and policy form filing approvals completed within 30 days</p> <p><u>Measure #2:</u> Percentage approved within 30 days</p>	<p><b>B1: Alaskan consumers are aware and knowledgeable about insurance</b></p> <p><u>Target #1:</u> 80% of consumer guides updated within one year of previous version</p> <p><u>Measure #1:</u> Percentage of consumer guides updated within one year</p> <p><b>B2: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes. The Division also updated its Alaska Insurance Consumer Guide, which is now available to people across the state.</b></p> <p><u>Target #1:</u> 6 outreach programs conducted annually</p> <p><u>Measure #1:</u> Number of programs conducted annually</p>

### Major Activities to Advance Strategies

<ul style="list-style-type: none"> <li>Implement an imaging process</li> <li>Create a committee to streamline forms and fee structures</li> <li>Review and revise company licensing instructions on forms and website for clarity, completeness and add "Frequently Asked Questions"</li> <li>Quarterly meetings with Attorney General staff to review current licensing actions/issues</li> <li>Implement payment process for credit card payments or Electronic Fund Transfer</li> <li>Implement an electronic filing process for nonresident</li> </ul>	<ul style="list-style-type: none"> <li>Develop a guide for insurers with Alaska specific information</li> <li>Staff participation in National Association of Insurance Commissioners meetings, seminars and other related training</li> <li>Visit insurers to present favorable market conditions and statistics</li> <li>Participate in the National Association of Insurance Commissioners "market analysis" project to modernize our approach to market oversight</li> <li>Require companies to use filing checklists</li> </ul>
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### Major Activities to Advance Strategies

<ul style="list-style-type: none"> <li>• applications and renewals</li> <li>• Implement an electronic program filing process for continuing education</li> <li>• Implement an electronic process that will automatically search for adverse administrative actions taken against persons by other states prior to issuance and renewal of licenses</li> <li>• Implement early planning sessions for both financial and market conduct examinations</li> <li>• Perform examinations both as desk audits and on-site audits to confirm compliance</li> <li>• Implement an integrated complaint and investigation tracking system</li> <li>• Training for investigator unit with various law enforcement agencies</li> <li>• Fund an assistant Attorney General with the criminal division to work with the Division of Insurance</li> <li>• Perform onsite/desk audits of insurers and surplus lines brokers for premium tax and fee payments plus lines insurers by review of annual statements for factors outside the norm</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a process for desk audits or on-site audits to improve filing quality</li> <li>• Increase access to the National Association of Insurance Commissioners data base for ability to utilize the national tools available</li> <li>• Investigate a new connection to the System for Electronic Rate and Form Filing to allow filings analysts to efficiently process filings</li> <li>• Perform assessment of a Surplus Lines Association through a cost/benefit analysis</li> <li>• Develop a frequently asked questions format for publication on the web site and paper distribution</li> <li>• Prepare Division annual report</li> <li>• Prepare updates to the various consumer guides</li> <li>• Visit consumer groups to do informational meetings on topics of current interest</li> <li>• Develop a public information officer to provide consistent information to the public and oversee division website</li> <li>• Update the public request for information process to provide efficient responses and to provide documentation of compliance with deadlines</li> </ul>
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### FY2008 Resources Allocated to Achieve Results

**FY2008 Component Budget: \$6,571,400**

**Personnel:**

Full time	53
Part time	0
<b>Total</b>	<b>53</b>

### Performance Measure Detail

#### A: Result - Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent

**Target #1:** No domestic insurance company becomes insolvent

**Measure #1:** Number of insolvent insurers

**Number of insolvent insurers.**

Year	YTD Total
2003	0
2004	0 0%
2005	0 0%
2006	0 0%

**Target #2:** 75% of investigations approved by the Director are completed within one year.

**Measure #2:** Percentage completed within one year.

**Percentage of investigations completed.**

Year	YTD Total
2003	87
2004	85 -2.30%
2005	79 -7.06%

*This information is based upon an annual, rather than FY calendar. Complete information for 2006 is not yet available.*

**Analysis of results and challenges:** Note that the number and complexity of investigations varies from year to year. Consequently, the percentage of completed investigations will vary.

**A1: Strategy - Timely financial examinations of domestic insurers**

**Target #1:** 100% of financial examinations of domestic insurance companies are done every three years

**Measure #1:** Percentage completed every three years

**Percent of completed financial examinations done every three years.**

Year	YTD Total
2003	100%
2004	100%
2005	100%
2006	100%

**A2: Strategy - Efficient licensing of both insurers and persons transacting insurance business**

**Target #1:** Producer applications processed within 10 days

**Measure #1:** Average number of days for processing

**Percentage processed**

Year	YTD Total
2003	15
2004	15 0%
2005	11 -26.67%
2006	5 -54.55%

**Analysis of results and challenges:** The Division has increased its efficiency in this category. Time to process applications has decreased by over 50%.

Electronic processing has helped to increase our efficiency and meet our needs.

**Target #2:** 80% of insurance company applications issued within 60 days

**Measure #2:** Percentage of applications issued within 60 days

**Percent issued within 60 days**

Year	YTD Total
2003	56
2004	74 +32.14%
2005	77 +4.05%
2006	75 -2.60%

**Analysis of results and challenges:** The Division is steadily increasing the number of applications issued within 60 days of filing, though below the goal of 80%. It is anticipated that electronic filing will bring the Division closer to meeting that goal, or will enable the Division to reach it.

**Target #3:** Surplus lines applications are approved or denied within 90 days of receipt of a complete application.

**Measure #3:** Percentage completed within 90 days

**Percentage completed in 90 days**

Year	YTD Total
2003	86
2004	75 -12.79%
2005	82 +9.33%
2006	88 +7.32%

### A3: Strategy - Thorough review of alleged violations of Alaska statutes

**Target #1:** 100% of alleged violations of Alaska statutes undergo an initial case review, and receive a recommendation whether or not to present to the Director for approval to investigate.

**Measure #1:** Percentage of case assessments and investigations performed

**Percentage of case assessments**

Year	YTD Total
2005	81

**Analysis of results and challenges:** Not all allegations of violations warrant a written analysis. However, every allegation of wrongdoing that the Division receives undergoes a formal or informal analysis. Note that in May of 2005, the Division began conducting an informal analysis to determine whether or not to open up a formal investigation. Consequently, there are no figures for prior to 2005. Note also that these numbers are based upon an annual, rather than FY calendar.

**A4: Strategy - Market conduct examinations are used to assess market practices**

**Target #1:** Perform market conduct examinations and market analysis to resolve compliance and market access issues.

**Measure #1:** Number of compliance issues that are resolved through market conduct examinations and market analysis.

**Number of compliance issues resolved**

Year	YTD Total
2003	0
2004	3 0%
2005	10 +233.33%
2006	12 +20.00%

**A5: Strategy - Enhancement of capacity to receive electronic filings**

**Target #1:** Reduce time needed to process electronic filings

**Measure #1:** Percentage reduction in time needed to process electronic filings

**Reduction in Time Needed to Produce Insurance Filings**

Fiscal Year	YTD Total
FY 2006	30%

**Analysis of results and challenges:** To improve the time to process electronic filings, a VPN was installed to connect to the electronic filings server. Although not consistent in performance, the VPN has improved the time needed to navigate in the electronic environment. When working well, transactions that formerly might have taken 15-20 seconds can now be done in 5-10 seconds. There are times that it still can take up to 30 seconds, and sometimes up to 3 minutes or more, to navigate around the electronic filing.

**A6: Strategy - Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations**

**Target #1:** Develop state specific filing checklists for self-certification of all product lines

**Measure #1:** Percentage of companies making filings accompanied by self-certification forms

**Percentage of companies making filings accompanied by self-certification forms**

Year	YTD Total
2006	15%

**Analysis of results and challenges:** Effective November 2, 2005 the statute was revised to change the process for reviewing insurance product filings by requiring insurers to use a self-certification if they file under the new expedited file and use review process. Prior to this statute insurers making property/casualty filings could elect to attach a self-certification, however few insurers (about 1%) took advantage of this optional program. Under the optional program, we received about 2 self-certification filings per month. Since the self-certification was enacted in statute, the self-certification became available to both property/casualty and life/health insurers and the number of filings made under the self-certification file and use review process averaged about 30 filings per month.

**B: Result - Competitive, up-to-date insurance products are available to Alaskan consumers**

**Target #1:**No more than 65% of the Property and Casualty market is shared by the top 5 insurers

**Measure #1:** Percentage of market share - top 5 Property and Casualty insurers

**Percentage of Property and Casualty market share: top 5 insurers:**

Fiscal Year	YTD Total
FY 2003	37.7
FY 2004	37.8
FY 2005	37.6

**Analysis of results and challenges:** Data for FY 2006 is not yet available, due to the time frames involved in reporting and analyzing the data. However, based upon the data for FYs 2003-2005, it appears that there is no undue concentration in the Property and Casualty markets.

**Target #2:**80% of rate and policy form filing approvals completed within 30 days

**Measure #2:** Percentage approved within 30 days

**Percentage of approvals within 30 days**

Year	YTD Total
2003	53
2004	59 +11.32%
2005	68 +15.25%
2006	60 -11.76%

**Analysis of results and challenges:** The Division continues to work on meeting this goal. The filing review statute change that became effective on November 2, 2005 has helped speed up the review process. However, due to significant staff turnover, the turn around time has increased due to training of the new analysts. As they become more experienced the review time should continue to decrease.

**B1: Strategy - Alaskan consumers are aware and knowledgeable about insurance**

**Target #1:**80% of consumer guides updated within one year of previous version

**Measure #1:** Percentage of consumer guides updated within one year

**Percentage of consumer guides updated**

Year	YTD Total
2003	80
2004	80
2005	80
2006	80

**Analysis of results and challenges:** We continuously update our consumer guides. In addition, we updated the entire Alaska Insurance Consumer Guide in 2006. We printed 5,000 copies, which are being distributed to the public.



**B2: Strategy - Conduct public outreach programs to provide educational assistance in understanding insurance products and processes. The Division also updated its Alaska Insurance Consumer Guide, which is now available to people across the state.**

**Target #1:** 6 outreach programs conducted annually

**Measure #1:** Number of programs conducted annually

**Number of programs conducted**

Year	YTD Total
2003	0
2004	6
2005	6
2006	9

**Analysis of results and challenges:** The Director and Deputy Director speak to numerous stakeholder groups throughout the year.

## Key Component Challenges

The Division will continue to investigate alleged or suspected violations of insurance laws. Timely completion of investigations and either closure of the investigation or additional referrals for administrative or criminal actions is a priority requiring education and cooperation from other state agencies.

The State of Alaska has an increasing lack of a healthy, competitive insurance market place. The workers compensation market is dominated by relatively few carriers which puts our state at risk of losing a viable option for employers to obtain a statutorily mandated coverage. The homeowner's market is fast becoming difficult with two carriers writing 63.98% of the business and seeking to reduce market share. This, in turn, creates pressure on the real estate industry as sales of property and re-financing depends on the availability of insurance coverage to satisfy the lenders. One key element to be developed will be regulatory modernization to keep Alaska consistent with regulatory practices across the country. In Workers Compensation there are three writers writing 65.4% of the market.

The Division's IT staff began to create and modify existing software and introduce new technology to enhance current processes. The new technology includes a period of learning that will reduce the efficiency of the programmers until their proficiency is advanced. However, this knowledge will greatly enhance the development of future efficiencies in the Division operations. Using the State recommended Stellent as a file repository is software new to the Division. Initial steps taken to implement Stellent were a needs analysis of the filing section and the creation of a Metadata schema for the division. There must be more work completed by the Division before there is a tangible result from using Stellent.

The Division has initiated several projects which seek to review the practices of various components of the industry which is regulated. Included in the investigations are sales practices of agents and brokers, licensing of individuals selling various products in the auto industry and sales and marketing practices in the title insurance industry. Assuring that consumers are adequately protected is the goal of the reviews of the current practices.

Oversight of both the financial solvency and the underwriting and claims practices of insurance companies is a primary regulatory function. Monitoring both the financial performance and the practices of the companies who write business in Alaska requires efficient utilization of resources.

## Significant Changes in Results to be Delivered in FY2008

No significant changes.

## Major Component Accomplishments in 2006

Issued or renewed 26,947 licenses to persons selling insurance in Alaska.

In addressing the internal and external communication and processes we have a new on-line complaint form available for consumers, the market conduct examiners received a new module to track their exams, the licensing examiners have a internal form for processing applications that greatly reduces the time and errors made in the former process and in investigations they have new search capabilities that captures information from all other section modules and incorporates professional licensing, business licensing, corporations, banking, and securities information.

Approved Surplus Lines Insurers-2 and Purchasing Groups Registered-18.

Approved Surplus Lines Insurers-2 and Purchasing Groups Registered-18.

Two premium tax audits of surplus lines brokers were completed

Revoked one certificate of authority, allowed one certificate of authority to expire and continued the suspension of six.

Maintained accreditation from the National Association of Insurance Commissioners (NAIC) through the annual self-evaluation affirming that the Division meets strict national standards for solvency regulation.

Licensed 24 insurance companies by issuing a certificate of authority, registered two (2) risk retention groups, approved one (1) accredited re-insurers, licensed one (1) multiple employer welfare arrangement.

Collected \$44,188,039 in premium taxes and fees, \$254,542 in company penalties and \$235,153 in producer penalties.

Opened and investigated 397 consumer complaints. In addition handled over 7,000 telephone and email consumer inquiries.

Took action that resulted in additional payments of \$610,745.28 to consumers in calendar year 2005.

Opened six (6) criminal investigations, closed one (1).

Issued 18 bulletins, 7 regulatory orders, 20 disciplinary orders, 3 suspension and revocation orders, and adopted three (3) regulations. The regulations dealt with the following matters:

1. Insurance holding companies, method of premium tax payments and surplus lines insurers and brokers.
2. Health insurance marketed as medicare supplements to comply with the requirements of 42 U.S.C. 1395ss, as amended by the Medicare Prescription Drug, improvement, and modernization Act of 2003, so that the state may retain full authority to set certain standards for medicare supplemental insurance.
3. Investments of a domestic insurer, filings required by an automobile service corporation and filings required by a multiple employer welfare arrangement.

Published an updated Homeowners Insurance Guide, Automobile Insurance Guide and Medicare Supplement Insurance (MEDIGAP) Rate Guide

Began participating in a pilot project to give priority review to property and casualty form filings if the insurer certifies that the filing complies with Alaska law.

Reduced the process time for filings submitted electronically by installing a VPN connection to the server.

Developed checklists for most lines of business to assist insurers in submitting filings that comply with the insurance law.

Conducted financial examinations of six (6) Alaska domestic insurers. Of the six (6), one (1) was completed and five (5) were not yet completed.

## Statutory and Regulatory Authority

AS 21 Insurance

AAC 3 21 to 31 Insurance

**Contact Information**

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### Insurance Operations Component Financial Summary

*All dollars shown in thousands*

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	3,910.1	3,867.8	4,499.5
72000 Travel	180.0	187.5	187.5
73000 Services	1,337.0	1,777.1	1,789.9
74000 Commodities	95.8	59.2	59.2
75000 Capital Outlay	26.9	35.3	35.3
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>5,549.8</b>	<b>5,926.9</b>	<b>6,571.4</b>
<b>Funding Sources:</b>			
1156 Receipt Supported Services	5,549.8	5,926.9	6,571.4
<b>Funding Totals</b>	<b>5,549.8</b>	<b>5,926.9</b>	<b>6,571.4</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Manageme nt Plan	FY2008 Governor
<b>Unrestricted Revenues</b>				
Receipt Supported Services	51073	10,408.6	10,000.0	10,000.0
Unrestricted Fund	68515	44,680.7	44,600.0	44,600.0
<b>Unrestricted Total</b>		<b>55,089.3</b>	<b>54,600.0</b>	<b>54,600.0</b>
<b>Restricted Revenues</b>				
Receipt Supported Services	51073	5,549.8	5,926.9	6,571.4
<b>Restricted Total</b>		<b>5,549.8</b>	<b>5,926.9</b>	<b>6,571.4</b>
<b>Total Estimated Revenues</b>		<b>60,639.1</b>	<b>60,526.9</b>	<b>61,171.4</b>

**Summary of Component Budget Changes  
From FY2007 Management Plan to FY2008 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2007 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>5,926.9</b>	<b>5,926.9</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 08 Health Insurance Increases for Exempt Employees	0.0	0.0	0.7	0.7
<b>Proposed budget increases:</b>				
-FY 08 Internal Dept Cost Increase due to Retirement Systems Rate Increases	0.0	0.0	102.8	102.8
-FY 08 Retirement Systems Rate Increases	0.0	0.0	541.0	541.0
<b>FY2008 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>6,571.4</b>	<b>6,571.4</b>

### Insurance Operations Personal Services Information

Authorized Positions			Personal Services Costs	
	<u>FY2007</u> <u>Management</u> <u>Plan</u>	<u>FY2008</u> <u>Governor</u>		
Full-time	53	53	Annual Salaries	2,738,198
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	2,085,484
			<i>Less 6.72% Vacancy Factor</i>	<i>(324,182)</i>
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>53</b>	<b>53</b>	<b>Total Personal Services</b>	<b>4,499,500</b>

### Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accounting Clerk II	0	0	1	0	1
Accounting Tech I	0	0	1	0	1
Actuary	0	0	2	0	2
Administrative Clerk II	3	0	3	0	6
Administrative Clerk III	0	0	2	0	2
Administrative Manager III	0	0	1	0	1
Consmr Service Spec(Insurance)	3	0	0	0	3
Consmr Service Supr(Insurance)	1	0	0	0	1
Dep Dir Insurance	0	0	1	0	1
Division Director	1	0	0	0	1
Ins Financial Exam I	2	0	1	0	3
Ins Financial Exam II	3	0	0	0	3
Ins Financial Exam III	1	0	0	0	1
Insurance Analyst I	0	0	2	0	2
Insurance Analyst II	0	0	4	0	4
Insurance Analyst III	3	0	2	0	5
Insurance Analyst IV	0	0	1	0	1
Insurance Licensing Exam I	0	0	4	0	4
Insurance Licensing Exam II	0	0	1	0	1
Investigator II	1	0	0	0	1
Investigator III	2	0	0	0	2
Investigator IV	1	0	0	0	1
Paralegal II	1	0	0	0	1
Prog Coordinator	0	0	1	0	1
Publications Tech I	0	0	1	0	1
Records & Licensing Spvr	0	0	1	0	1
Secretary	1	0	0	0	1
Tax Auditor III	0	0	1	0	1
<b>Totals</b>	<b>23</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>53</b>